GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:973
ANSWERED ON:23.11.2007
FOREIGN FUND INFLOWS
Singh Shri Uday

Will the Minister of FINANCE be pleased to state:

(a) whether in view of Government`s external debt status report, the Government has now decided to limit the level of such debt, restrict their end-use and also to monitor short term loans;

(b) if so, the details thereof;

(c) whether the foreign fund inflows are directly affecting the economy at large and not being properly controlled by the Government; and

(d) if so, the steps taken by the Government to check such rising inflow of foreign funds?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI P.K. BANSAL)

(a) & (b) The Government`s policy towards external debt is to keep it within manageable limits. This includes, inter alia, raising sovereign loans on concessional terms with longer maturities, prepaying high cost loans, rationalising interest rates on Non-Resident Indian (NRI) deposits, restricting end-use of external commercial borrowings (ECBs), monitoring of short- term debt and encouraging non-debt creating capital flows.

(c) & (d) As increase in the net capital inflows could result in reserve accretion with attendant impact on the domestic liquidity, the Reserve Bank of India (RBI) uses various monetary instruments to manage liquidity. In respect of portfolio flows, Securities and Exchange Board of India (SEBI) has put in place prudential norms for investment by Foreign Institutional Investors (FIIs) through Participatory Notes (PNs). In respect of ECB, guidelines have been suitably revised from time-to-time to address the issues including rationalising end-use, encouraging prepayment and outflows. As regards NRI deposits, interest rates are modulated by RBI as warranted. Short-term debt is permitted to be raised only for trade-related purposes under normal terms and conditions. In respect of sovereign debt, the emphasis is on raising of loans on concessional terms.